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SUBJECT: ESTONIA'S VIEW ON POLISH PARTICIPATION IN IGNALINA

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Classified By: ADCM Eric A. Johnson for reasons 1.4 (b) and (d)

¶1. (C) Based on our recent discussions with key officials in Estonia's energy sector, it is clear that Estonia is open to the idea of Polish participation in the Ignalina nuclear power project. However, GOE and Eesti Energia officials have expressed concern to us about the Lithuanian approach to the project and emphasized the need for consensus decision-making among the three original project participants (Lithuania, Latvia and Estonia).

¶2. (C) Both Sandor Liive, Chairman of Eesti Energia, and Einari Kisel, Director of the Energy Office at the Ministry of Economy, told us recently they believe Polish participation in Ignalina makes sense, and emphasized that it does not present a problem for Estonia. However, our GOE counterparts bristled at the 'unilateral way' Lithuania announced in the fall of 2006 that it wanted to bring Poland on board. GOE officials note that the basis for Baltic cooperation on Ignalina is contained in the Trakai Communiqué, which was signed by the three countries' Prime Ministers February 27, 2006 (reftel A). According to this agreement, invitations to additional participants should be made on the 'principle of consensus' among the three Baltic countries.

Matters of substance...

¶3. (C) For the GOE, the biggest complication posed by Polish participation is the division of project shares. At Trakai, the three countries agreed that the Baltic energy companies would be invited to participate in the project "on equal terms." Since the invitation to Poland to join the project, however, Lithuania has proposed that it get one-third of the project, leaving each of the three other parties with approximately 22 percent. This is not a deal-breaker for the Estonians, as they understand

Lithuania's sensitivity to the fact that the new plant will be located on Lithuanian territory. However, Kisell told us that the GOE is concerned about Poland and Lithuania together wielding majority control, and has suggested Estonia would prefer Poland having a smaller share, perhaps 15 percent. According to Kyllike Sillaste-Elling, the Prime Minister's Foreign Policy Advisor, the GOE opposes the idea of Lithuania codifying ownership percentages into its domestic legislation, as it would set unnecessary limitations on the shape of the project.

And matters of style...

¶4. (C) Another issue which complicates Baltic cooperation on Ignalina is the Lithuanian preference for dealing with the project at the political level. Even in the early planning stages, Lithuania has sought strong involvement from its Prime Minister and President. Both Sillaste-Elling and Kisell emphasized that the GOE's preference is to keep the discussions at a commercial level, with engagement from the Prime Minister as necessary from time to time. This issue was particularly problematic during the last few months when the Lithuanians pressed for several meetings at the prime ministerial level. Sillaste-Elling commented that in the run-up to Estonia's

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Parliamentary elections, it was not appropriate for PM Ansip to attend.

¶5. (C) Our Estonian interlocutors also expressed some concerns about the Lithuanian track record on Baltic cooperation. Eesti Energia's Liive told us that Estonia has had "a couple of unpleasant experiences in the energy field" with Lithuania in the past. Kisell said he believes the two countries take different approaches to signed agreements. The Lithuanians have a tendency to use signed agreements such as Trakai as more of a starting point for discussion while the GOE takes a much more "Nordic" approach - treating declarations and MOUs in a more contractual sense, not up for reinterpretation later in the process.

Ignalina in the big picture

¶6. (C) All of our contacts highlighted their belief that Ignalina is a higher priority for Lithuania and Latvia than for Estonia. In contrast to its Baltic neighbors, Estonia is already self-sufficient in electricity production. Participation in Ignalina is only one of several avenues the GOE is pursuing to diversify electricity supply and reduce its use of fossil fuels. Other recent initiatives include linking the Baltic and Nordic electricity grids via the Estlink cable to Finland (reftel B), modernizing the oil-shale fired power plants in northeastern Estonia, and modestly expanding the use of renewable energy

sources. Regardless, the GOE still sees great benefit in the Ignalina project, which would serve to link the Baltic electricity grid with Western Europe's UCTE grid. The GOE is interested in the possibility that their share in Ignalina will provide Estonia with additional electricity for export to Finland and other neighbors. (Note, Estonia currently exports about 20% of the electricity it generates domestically. End Note.)

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